# State of Rhode Island Department of Administration

# INTER-OFFICE MEMORANDUM

# Office of Accounts and Control

**TO:** Chief Financial Officers **DATE:** February 11, 2002

State Departments and Agencies

**FROM:** Lawrence C. Franklin, Jr., State Controller

SUBJECT: NEGATIVE LINES ON PURCHASE ORDERS PROHIBITED

Although the RISAIL system will accept a negative line on a purchase order, due to their undesirable effect on accounting transactions, you are hereby notified that negative line items should NEVER occur.

When creating purchase orders and requisitions ALL lines should be positive. My office completed an analysis of all purchase orders and found many that have negative charges. If the reason for the negative line is because agencies are trying to take a discount or apply a credit please see the attached procedure, there is a provision in BUYSPEED to handle these discounts.

If the negative line is to reduce the quantity ordered, change orders should be issued to the vendors to notify them of order reductions. The attached document provides a procedure for this. However, if there are at least two invoices created, you will be unable to create a change order reduction. The work around procedure to reduce releases against master blankets and Department small purchase orders is to final pay all lines on the purchase order and create a clone that reflects the appropriate (unreceived/uninvoiced) balances in all of the line items. The new purchase order should include a descriptive change order narrative, explaining the reduction of the original purchase order and should be sent to the vendor to notify him/her of the change.

My office will address any negative line in the accounting tab and we will continue to monitor this event to ensure that it does not happen in the future. Please be aware of this change as it may affect payments against the purchase order when the vendor bills you.

Please make sure that all persons in your agency creating and approving requisitions purchase orders and invoices are aware of this policy and are prepared to take corrective action.

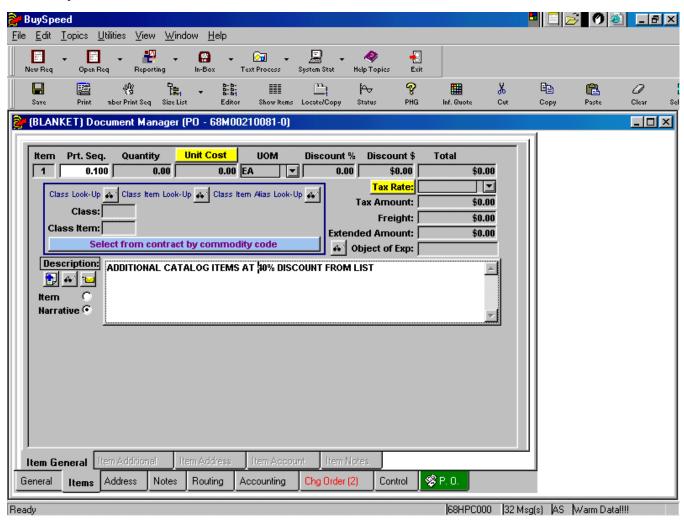
/hh CFO:02-33



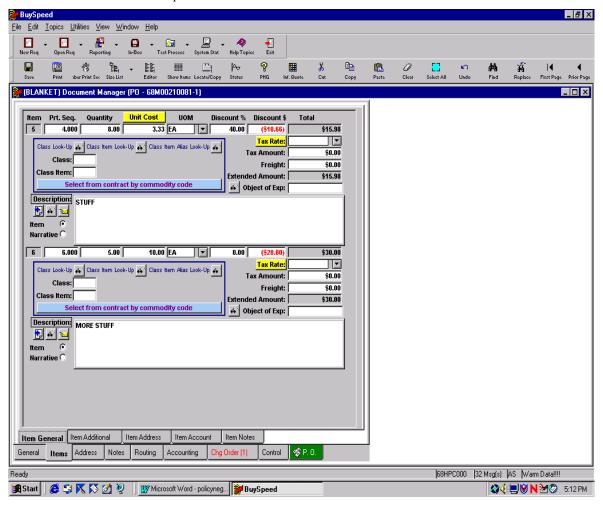
The following procedures should be used where negative values (costs) must be calculated.

#### **DISCOUNTS & TRADE-INS**

When contracts are negotiated for discounts, the discounts will be described in narrative form, e.g., 40% off list price.



Requisitions, bids and purchase orders where discounts OR trade-ins are applied should use the discount field available in RISAIL. See samples below.

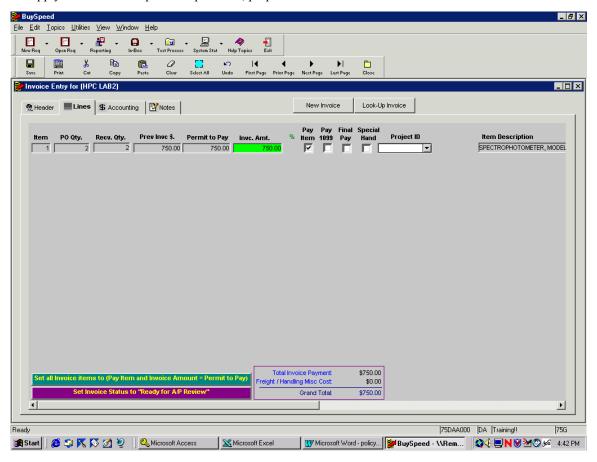


When discounts and trade-ins are utilized, the "permit to pay" on the invoice will be calculated using the net value (e.g., list – discount) of the unit cost times the quantity received. This means that, even with trade-ins, when there are partial receipts, the discounted amount will be spread across all invoices. For example, if there are 5 items at \$10, each time a receipt is recorded, 60% of the list price will be calculated for each item.

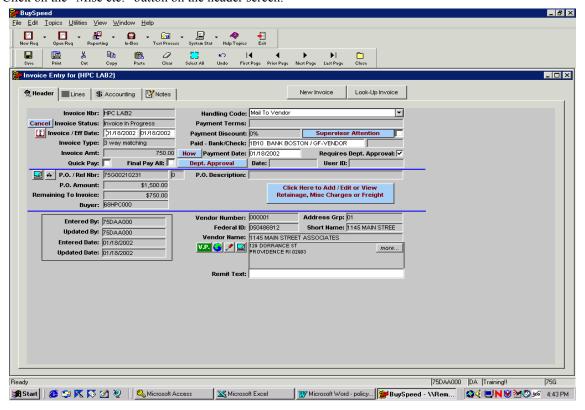
When a trade-in is used, the system calculates the percent to apply to each receipt. For example, there could be two new cars being purchased at \$10,000 each and only a single vehicle trade-in valued at \$500. If the new vehicles were delivered and paid for at separate times, the system would deduct \$250 from \$10,000 to calculate the permit-to-pay as each new vehicle is invoiced.

#### APPLYING A CREDIT FROM A PREVIOUS PURCHASE

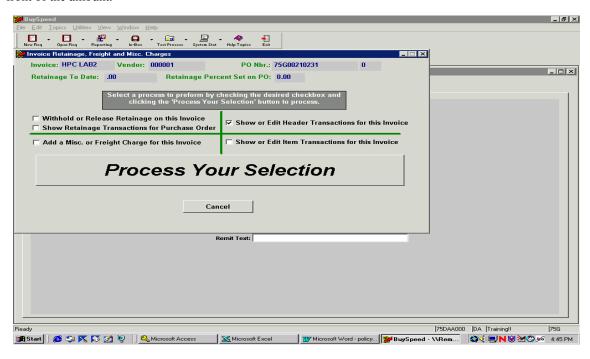
To apply a credit from a previous purchase, prepare current invoice in standard manner.



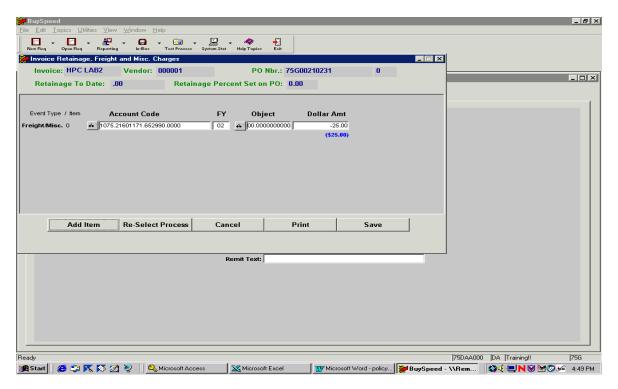
Click on the "Misc etc." button on the header screen.



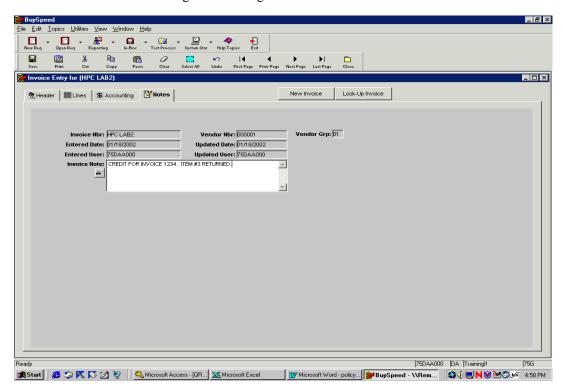
Click in the field "Add a Misc or Freight Charge" and then on the "Process Your Selection" button. Select the correct account numbers and cost centers. Enter the amount to be credited using a minus sign in front of the amount.



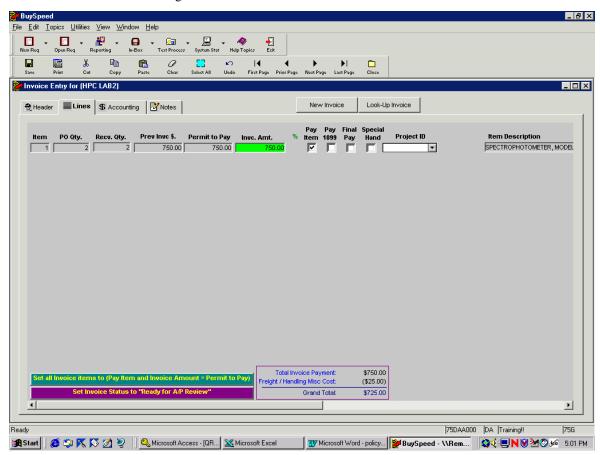
SAVE and then "x" out of the screen.



Add a note on the invoice referencing what is being credited.

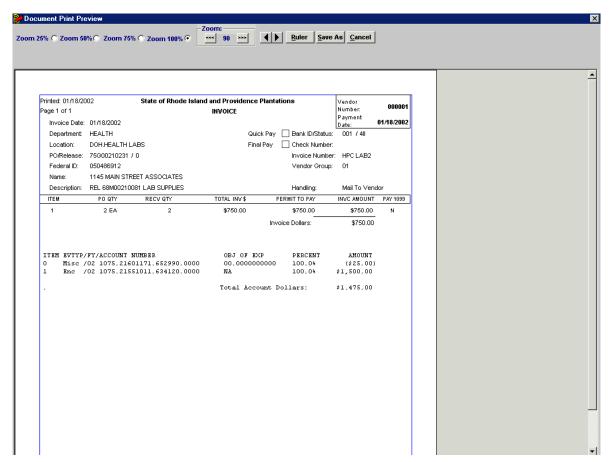


The credit will show on the "freight" line.



Page 5 of 10

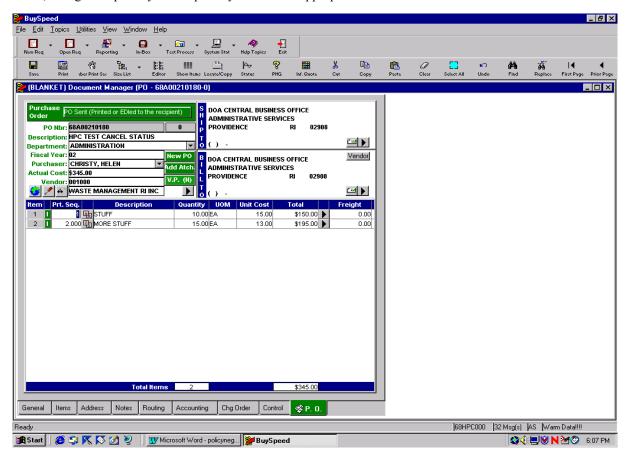
The printed invoice will look like the following.



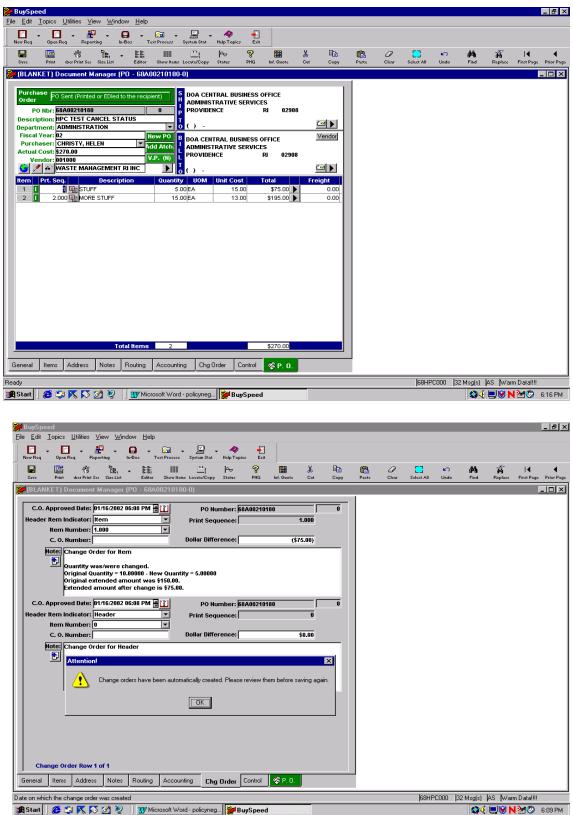
#### REDUCE ENCUMBRANCES

If a purchase order has been issued in error and no receipts or payments have been recorded, a purchase order can be cancelled. If the purchase order has been sent to a vendor, the vendor must receive a change order notice of cancellation with a reason for the cancellation.

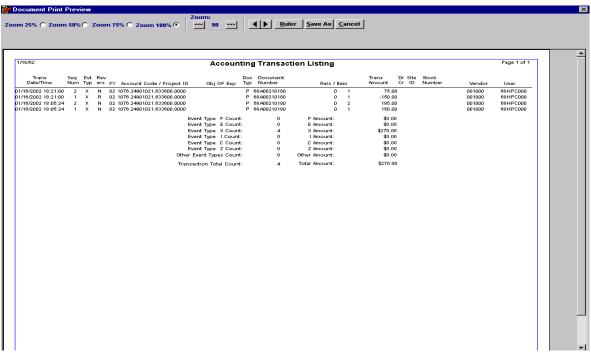
If the quantity of the purchase order must be reduced, a change order should be issued. If the purchase order has been sent to a vendor, the vendor must receive a change order notice of cancellation. To create a change order, change the quantity in the quantity field of the appropriate line item.



When the quantity is changed, the value of the line item will be changed and the system will automatically generate a change order and will permit recalculation of the accounting data.



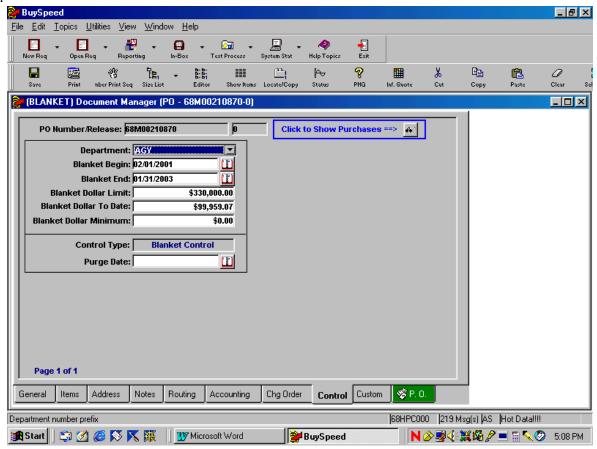
The accounting transactions for the above sample show that the original extended value of line item number 1 (\$150) was encumbered. The change order created a reversal of the original \$150 and a new encumbered value of \$\$75.



However, if any invoices have been processed the system will not permit any change orders, including reductions. Such transactions must be requested in writing according to the procedure established by the Controller.

#### REVERSAL OF RELEASES AGAINST MASTER BLANKETS

Every Master Blanket has a Control Value. This is the maximum amount authorized for releases against a particular Master.



Each release against a Master Blanket is added to a "Blanket Dollar to Date" amount which is compared in RISAIL to the amount of the Control Value. When a release is cancelled, the amount is deducted from the Blanket Dollar to Date amount.

If there have been no payments, to reverse a release, prepare a change order the same way as described above.

If there is a payment against a release, you will not be able to create a reduced line item value. Final pay the line item(s) to close it (them) and then create a new line item(s) or new release with the correct amounts and accounts.

NOTE: When a release or item is Closed, the extended amount (value) is NOT deducted from the Blanket Dollar to Date amount. To permit the creation of additional releases or additional items, either the Blanket Dollar to Date field will have to be reduced or the Control Value will have to be increased. Current procedure is to increase the control value. We are working on another solution.

For changes in control value, Agencies should submit a Blanket Master Change Order forms to the Division of Purchases. It would be helpful for the request to indicate if there is a problem due to closed purchase orders.